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Message Text

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73
ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 AID-20 CIAE-00 FRB-02

INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12 SPC-03 CIEP-02

LAB-06 SIL-01 OMB-01 NSC-10 SS-20 STR-08 CEA-02 L-03

PA-03 PRS-01 USIA-15 DRC-01 /176 W
---------- 089903
R 121907Z OCT 73
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 4747
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USDOC WASHDC
TREASURY DEPT WASHDC

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DEPARTMENT ALSO PASS FRB

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING OCTOBER 12

BEGIN SUMMARY: THE POUND ROSE AGAINST THE DOLLAR TOWARDS
THE END OF THE WEEK TO CLOSE AT $2.4270 ON THURSDAY
(OCT. 11). THE TRADE-WEIGHTED DEVALUATION OF STERLING
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AGAINST DECEMBER 1971 RATES RANGED BETWEEN 19.62 PERCENT

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AND 19.78 PERCENT THIS WEEK. GOLD ROSE SHARPLY ON MONDAY (OCT. 8), FELL BACK ON TUESDAY (OCT. 9) AND THEN ROSE AGAIN TO CLOSE AT $103.50 ON THURSDAY (OCT. 11). PHASE III OF THEGOVERNMENT'S PRICES AND INCOMES POLICY WAS ANNOUNCED BY THE PRIME MINISTER ON MONDAY AND WILL GO INTO EFFECT FOR PRICES ON NOVEMBER 1 AND WAGES ON NOV. 7. THE U.K. RECORDED A CURRENT ACCOUNT DEFICIT OF 113 MILLION POUNDS IN SEPTEMBER WITH A TRADE DEFICIT OF 178 MILLION POUNDS. WHOLESALE PRICES OF MANUFACTURED PRODUCTS CONTINUED TO RISE RAPIDLY IN SEPTEMBER, BUT RAW MATERIALS PRICES ROSE ONLY MARGINALLY. THE MOST RECENT DTI INVEST-MENT INTENTIONS SURVEY INDICATES A STRONG RISE IN THE LEVEL OF INVESTMENT BY MANUFACTURING INDUSTRY NEXT YEAR. REAL DISPOSABLE INCOME ROSE BY 2--2-1/2 PERCENT IN THE SECOND QUARTER. END SUMMARY.

1. STERLING TRADED BETWEEN $2.4119-1/2 AND $2.4270 THIS WEEK, CLOSING ON THURSDAY (OCT. 11) AT $2.4270. THIS WAS AN INCREASE OF 140 POINTS ON LAST THURSDAY'S CLOSE. WHILE THERE WAS SOME NERVOUSNESS IN THE MARKET DUE TO THE ARAB-ISRAELI WAR AND VICE PRESIDENT AGNEW'S RESIG-NATION, THE MARKET DID REMAIN PRETTY STEADY. THE U.K. TRADE DEFICIT ANNOUNCED ON THURSDAY WAS EXPECTED AND THEREFORE HAD NO REAL IMPACT ON THE POUND. THE TRADE-WEIGHTED DEVALUATION OF STERLING REACHED 19.78 PERCENT AT THE BEGINNING OF THE WEEK BUT NARROWED TO 19.68 PERCENT ON THURSDAY (OCT. 11), COMPARED TO 19.63 PERCENT LAST THURSDAY. GOLD ROSE FROM $89.50 LAST FRIDAY (OCT. 5) TO $101 ON MONDAY IN RESPONSE TO THE OUTBREAK OF FIGHTING IN THE MIDDLE EAST. IT FELL BACK TO $99 ON TUESDAY BUT ROSE AGAIN ON WEDNESDAY AND THURSDAY TO CLOSE AT $103.50, UP $4.00 ON LAST THURSDAY'S CLOSE.

2. ON MONDAY, OCTOBER 8, THE GOVERNMENT ISSUED A CONSUL-TATIVE DOCUMENT DETAILING PROPOSALS FOR STAGE THREE OF THEIR PRICES AND INCOMES POLICY. WHILE THE TUC AND THE CBI HAVE BEEN INVITED TO COMMENT, THE PROGRAM WILL PRO-BABLY BE IMPLEMENTED ON NOVEMBER 1 FOR PRICES AND NOVEMBER 7 FOR WAGES. ONE MOVE WHICH PLEASED EVERYONE WAS MAKING JANUARY 1 A BANK HOLIDAY. (FOR DETAILS SEE UNCLASSIFIED

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LONDON 11682.)

3. THE U.K. RECORDED RECORD IMPORTS OF 1239 MILLION POUNDS AND RECORD EXPORTS OF 1061 MILLION POUNDS FOR SEPTEMBER. WITH A VISIBLE TRADE DEFICIT OF 178 MILLION POUNDS AND AN INVISIBLES SURPLUS OF 65 MILLION POUNDS, THE CURRENT ACCOUNT WAS IN DEFICIT BY 113 MILLION POUNDS, COMPARED TO 128 MILLION POUNDS IN AUGUST. (FOR

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DETAILS SEE LONDON 11798.)

4. THE SEPTEMBER WHOLESALE PRICE
INDEX FOR MANUFACTURED GOODS (BASED ON DOMESTIC SALES)
ROSE ABOUT ONE PERCENT TO 125.3 FROM 123.9 IN AUGUST
(1970100). THE INDEX FOR THE PRICE OF RAW MATERIALS
ROSE ONLY .3 POINTS IN SEPTEMBER TO 152.5 (1970
100). THE SEPTEMBER INCREASE FOR RAW MATERIALS WAS THE
LOWEST FOR MANY MONTHS AND OFFERS THE FIRST REAL SIGN THAT
THIS YEAR'S SHARP UPWARD TREND MAY BE EASING. DURING
JULY AND AUGUST RAW MATERIAL COSTS WERE RISING AT 4 PER-
CENT A MONTH.

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5. IN A SURVEY CARRIED OUT IN AUGUST-SEPTEMBER BY THE DTI, MANUFACTURERS INDICATED THAT THEY WOULD INVEST, ON AVERAGE, 6 PERCENT MORE, IN REAL TERMS, THIS YEAR. AN INCREASE ON THE ORDER OF 15 PERCENT WAS FORECAST FOR 1974. THIS IMPLIED THAT RECENT REPORTED CAPACITY SHORTAGES ARE AT LAST FORCING INDUSTRY TO INVEST IN THE UNCLASSIFIED

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PLANT AND MACHINERY NECESSARY TO SUSTAIN THE ECONOMIC BOOM.

6. DURING THE SECOND QUARTER (THE FIRST THREE MONTHS OF PHASE II) THERE WAS A SHARP RECOVERY IN REAL DISPOSABLE INCOME IN THE UK, WHICH ROSE ON AVERAGE BY 2.2 PERCENT. BETWEEN SECOND HALF 1972 AND FIRST HALF 1973 REAL PERSONAL DISPOSABLE INCOME GREW AT AN ANNUAL RATE OF 6-1/2 PERCENT.

7. THE FORWARD DISCOUNT ON STERLING ROSE AT MID-WEEK, BUT HAD FALLEN BACK SOMEWHAT BY THURSDAY.

	10/4	10/11	CHANGE
1 MONTH	0.52-1/2	0.63-1/2	UP 0.11
3 MONTHS	2.29-1/2	2.17-1/2	DOWN 0.12
6 MONTHS	4.55-1/2	4.57-1/2	UP 0.02

(ALL FIGURES IN CENTS)

8. LOCAL AUTHORITY DEPOSIT RATES ROSE SHARPLY ON TUESDAY (OCT. 9), BUT SLID BACK ON WEDNESDAY (OCT. 10) AND THURSDAY (OCT. 11).

	10/4	10/11	CHANGE
1 MONTH	12-9/16	12-9/16	UNCHANGED
3 MONTHS	13-1/8	12-13/16	DOWN 5/8
6 MONTHS	13-1/8	12-15/16	DOWN 3/8

9. EURO-DOLLAR RATES ROSE SHARPLY ON TUESDAY (OCT. 9), FELL BACK ON WEDNESDAY (OCT. 10), AND MOVED UPWARD AGAIN ON THURSDAY (OCT. 11).

	10/4	10/11	CHANGE
1 MONTH	11-1/4	10-1/2	DOWN 3/4
3 MONTHS	10-11/16	10-7/16	DOWN 1/4
6 MONTHS	10-1/4	9-15/16	DOWN 5/16

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10. THE MINIMUM LENDING RATE REMAINED FIXED AT 11-1/2
PERCENT.

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